

**2022**  
**Affordable Housing Preservation**  
**Loan Purchase**

**STATUTORY ACTIVITY:**

A. The project-based and tenant-based rental assistance housing programs under Section 8 of the U.S. Housing Act of 1937, 42 U.S.C. § 1437f (C.F.R. § 1282.34 (c) (1)).

**OBJECTIVE:**

1. Provide a steady source of capital and liquidity through the purchase of loans secured by Project-Based Section 8 properties.

**INFEASIBILITY:**

Check here if the Enterprise is submitting an infeasibility request for the objective.

**SUMMARY OF RESULTS:**

Objective’s components detailed in the Plan	Corresponding actions taken	Explanation of any deviations from the Plan (if applicable)
<input checked="" type="checkbox"/> Purchase 159 Section 8 loans.	In 2022, Fannie Mae purchased 223 Section 8 loans supporting 25,526 units. This represents an increase of 40% above the baseline and target of 159 loans.	N/A

**SELF-ASSESSMENT RATING OF PROGRESS:**

- Target met
- Target exceeded
- Target partially completed
- No milestones achieved

**IMPACT:**

- 50 – Very Large Impact
- 40
- 30 – Meaningful Impact
- 20
- 10 – Minimal Impact
- 0 – No Impact



## IMPACT EXPLANATION:

### 1. How and to what extent were actions under this objective impactful in addressing underserved market needs, or in laying the foundation for future impact in addressing underserved market needs?

Section 8 Project-Based Rental Assistance (Section 8) programs establish contracts with private owners to rent some or all of the units in their multifamily housing developments to low-income families, providing a critical source of affordable housing. But thousands of Section 8 units are at risk of losing their affordability status in the coming years. As housing assistance payments (HAP) contracts expire, units may be converted to market-rate units or condominiums. In addition, the housing stock is aging; without affordable, reliable financing, housing quality may deteriorate and become unsafe for residents. Through the purchase of loans secured by Section 8 properties, Fannie Mae can provide liquidity and therefore stability in the supply of available units, helping Section 8 units maintain their deep subsidy and physical sustainability.

A high proportion of units that were financed (85%) were affordable at 50% AMI or below, protecting critical access to housing for the lowest-income populations. Older properties with critical financing needs account for a large share of loans purchased. Properties Fannie Mae financed in 2022 were, on average, 50 years old. This demonstrates our focus on investing in properties likely to need critical improvements and repairs to preserve affordable units before they are lost to safety issues. Multifamily Affordable Housing (MAH) financing products offered by Fannie Mae also provide long term capital stability for the life of the loan.

We attribute the notably high loan deliveries we achieved in 2022 to several success factors. As part of our effort to scale our Section 8 HAP contract business, we have maintained a high level of consistent engagement with lender and sponsor partners that are active in this space, some of which are focused exclusively on Section 8 given the properties' tendency to have steady tenancy and income through Section 8. These relationships generated significant affordable housing loan purchase volume throughout the year, including several large, high-unit transactions. An additional driver of our success was the rising interest rate environment, which incentivized many borrowers to act sooner to lock in favorable rates. Through headwinds that disrupted the mortgage and real estate development markets more broadly, including rising construction costs and persistent labor shortages, Fannie Mae closely followed developments in the lender market to understand how financing needs could be best addressed to keep these projects economically feasible. Given the rate environment, significant pricing competition was a market factor in 2022, since Section 8 deals represent the strongest mission impact (typically 50% AMI or below) among affordable housing products. In this regard, Fannie Mae was challenged to price deals strategically to protect affordability while generating sustainable returns. High levels of loan delivery serve as evidence that this pricing strategy was effective, allowing Fannie Mae to fulfill its commitment to provide liquidity to the Section 8 market.

### 2. What did the Enterprise learn from its work about the nature of underserved market needs and how to address them?

A measure of Fannie Mae's success in serving this market sustainably will be our ability to balance a competitive product offering with safety and soundness priorities. Our work in 2022 pointed to several takeaways that will inform our approach to meeting this objective in 2023.

- **Adapting to changing demand:** While exceeding our 2022 loan purchase target is a considerable achievement, market conditions in future years may prove less opportunistic. We are expecting a high level of competition for Section 8 deals in 2023, both in pricing and structural accommodations. Because rising levels of inflation and the higher rate environment put pressure on project cost and therefore net rental proceeds, there has been a notable increase in requests for more flexible loan terms, including interest-only components.
- **Need for continual product efficiencies:** Identifying product efficiencies can be one way to address evolving market needs. In 2022, we continued our work on the issue of housing assistance payments overhang, which is the amount by which project-based Section 8 contract rents exceed the appraiser's concluded projected market rents. To help streamline how this is addressed in our credit guidelines, we made modifications to allow certain levels of delegation to lenders in strong markets (delegation up to 10% above projected market rents) and other eligible MSAs (delegation up to 5% above projected market rents), where the threshold triggers pre-review requirements if exceeded. This change is intended to make the underwriting of Section 8 HAP deals more efficient where appropriate based on market stability. We continue to analyze industry and programmatic trends.



- **Impact of program funding:** Other continued challenges to pipeline growth include static funding levels for Section 8 and difficulty in forecasting opportunities in this space. The number of Section 8 contracts will not increase unless legislated, which caps the number of properties that may receive financing. In 2022, \$13.9 billion of funding was appropriated for the renewal of current rental assistance contracts, consistent with maintenance levels of funding over the past several years. Loan volume growth in 2023 will require Fannie Mae to strategically identify new financing opportunities as they arise. The nature of Section 8 HAP contracts, however, presents challenges in forecasting new business. Contract maturities may not necessarily match up with financing terms, and Section 8 contracts can renew without a financing event. Activities in the LIHTC space can provide some valuable insight, as some Section 8 contracts are on LIHTC properties that have regular financing opportunities. In 2022, approximately a third of Section 8 loans delivered were secured by properties also receiving LIHTC funding.

**3. Optional: If applicable, why was the Enterprise unable to achieve the Plan target?**

Not Applicable



**Fannie Mae**  
**Affordable Housing Preservation**  
**First Quarter Report: January 1 - March 31, 2022**  
**Loan Purchase**

**ACTIVITY:**

A. Statutory Activity: Section 8. The project-based and tenant-based rental assistance housing programs under Section 8 of the U.S. Housing Act of 1937, 42 U.S.C. § 1437f.

**OBJECTIVE:**

1. Provide a steady source of capital and liquidity through the purchase of loans secured by Project-Based Section 8 properties.

**SUMMARY OF RESULTS:**

Through March 31, 2022, we have acquired 43 loans Section 8 loans and are On Track to meet our target by year end.

Following are the 2022 Actions under this Objective:

- Purchase 159 Section 8 loans.

**SELF-ASSESSMENT RATING OF PROGRESS:**

- On-target to meet or exceed the objective
- Progress delayed and/or partial completion of the objective expected
- Unlikely to achieve any milestones of the objective

**ADDITIONAL INFORMATION (IF APPLICABLE):**